Presidents' Panel:
"Close Tax Loopholes"

BIG SWITCH TO HANDS-ON ECONOMICS

John Dingell:
Congressional Powerhouse

The Transformation of NCR

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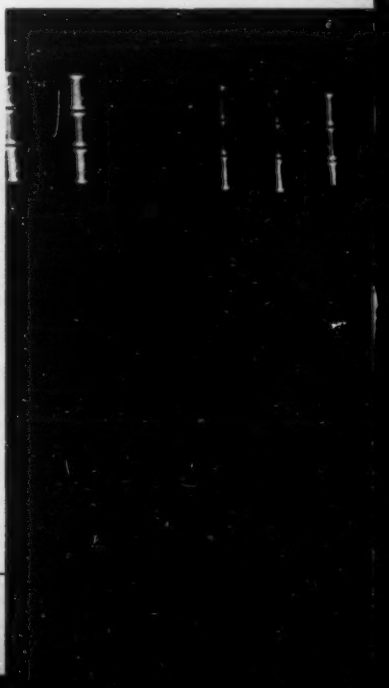

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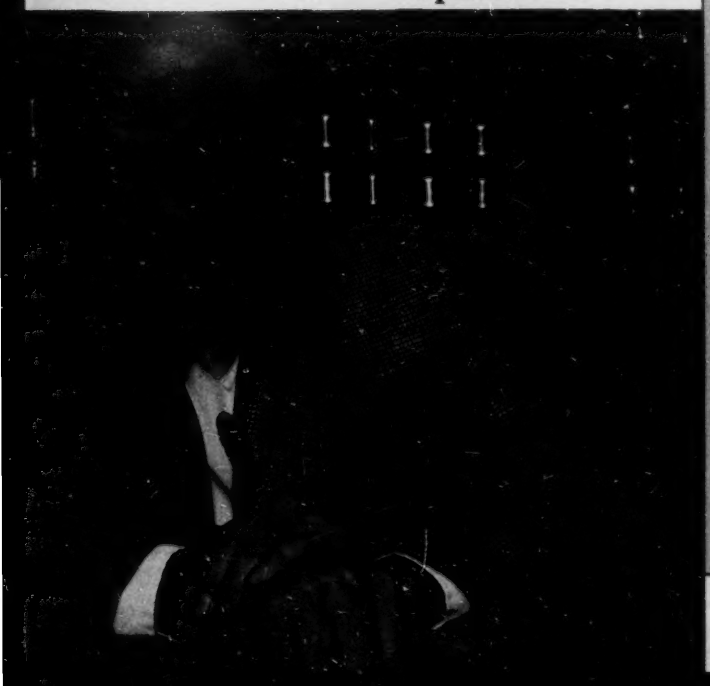

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The Big Switch to Hands-On Economics

Disenchanted with macroeconomics, companies demand a focus on markets. Economists doing line jobs.

by Marc Levinson

When the New York Association of Business Economists meets, the subject is generally the economy. But when thirty members gathered recently at a Wall Street bank, the economic indicators were the last thing on their minds. Lured by an invitation warning that the "loss of jobs for business economists is rapidly becoming one of the most serious problems we face," they discussed alternative careers.

Economics seems to have gone out of fashion in corporate America. Company after company is slashing its economics staff. In May, TRW Inc., a $6 billion electronics and auto parts manufacturer, eliminated its economics unit altogether. Chemical Bank did the same in 1985. American Telephone & Telegraph, American Can and Citicorp, among others, have slashed their economics staffs.

Despite the crop of obituary notices for economics departments, however, the demise of business economics is not at hand. Rather, according to a DUN'S BUSINESS MONTH survey of corporate economists, a sweeping change has taken place in the way in which companies use economic analysis (*box, page 28*). Three out of four respondents said that the function of their department has changed markedly in the past two years.

The vast majority say that their departments now focus primarily on microeconomics—divining the economic ebb and tide of the industry the company operates in, the changes in its markets and the repercussions of those nitty gritty developments on next year's sales and profits. And, in sharp contrast to the past, they get involved in a hands-on way in company operations. Business economists still are counted as staff, but their output is increasingly tied to line operations.

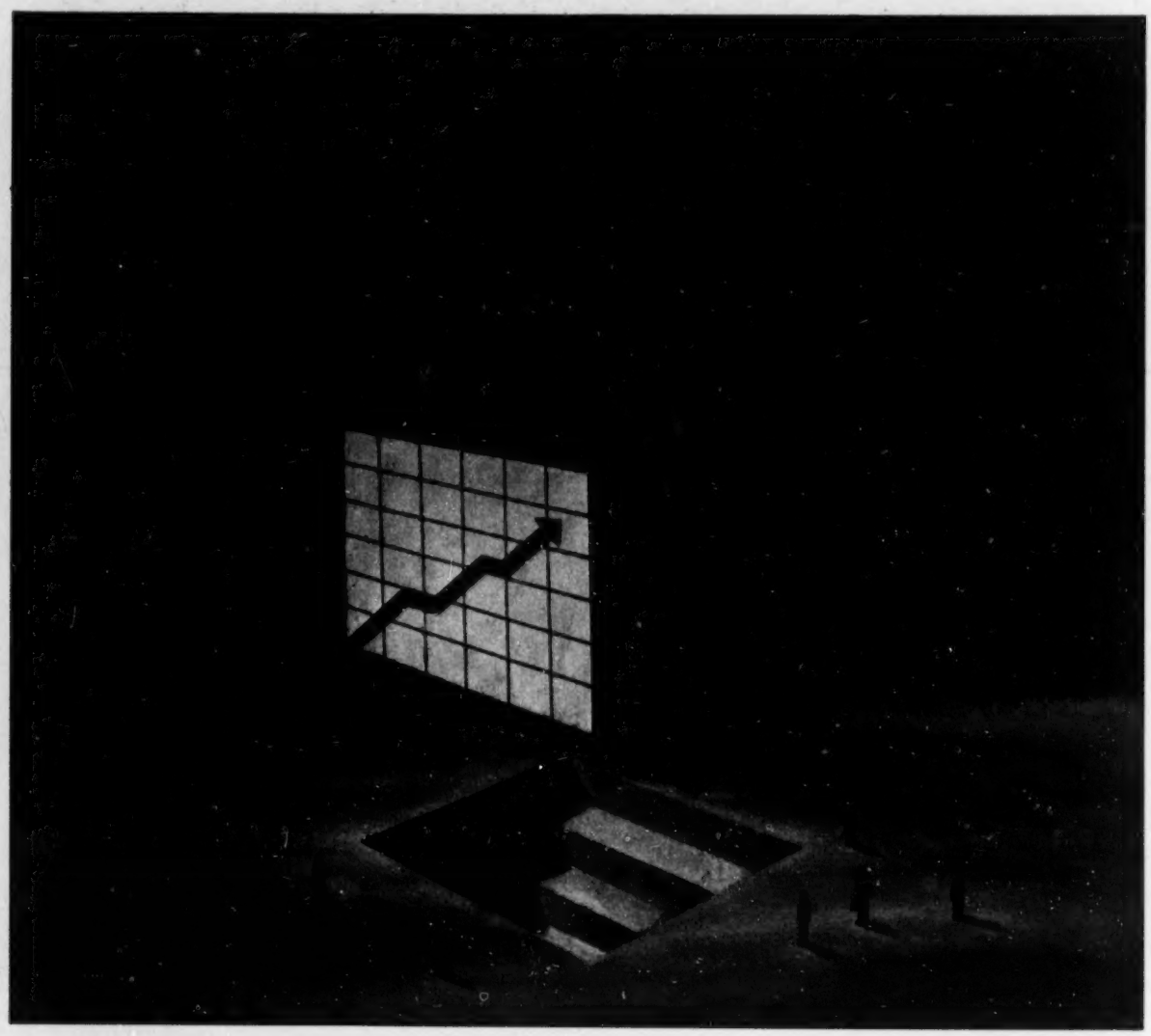
Until recently, economics departments generally prognosticated the big picture—macroeconomics. They forecast the economic outlook six months or a year down the road and offered instant analyses of the statistics that pour out of Washington. But along with government and academic pundits, the business economists' forecasts were lousy. All too frequently, they failed to call the turns in the economy in the late 1970s and early 1980s.

Business' disenchantment with macroeconomics is not surprising in light of the high hopes engendered by computer-based econometric models, which were much balleyhooed during the 1970s as a scientific forecasting tool. These models use equations that predict Gross National Product, interest rates, inflation and other indicators, based on their historical relationships with each other. But because the models are based on experience, they proved vulnerable to changes in the underlying relationships, such as the massive energy shocks of the 1970s.

Even more infuriating to businessmen faced with making decisions, forecasts based on econometric models can swing erratically. In August 1985, for example, Georgia State University's model said real GNP would grow 2.5% this year. Since then, the forecast has dropped to 2.3%, risen to 4% and fallen again to 2.2%.

As long as corporate budgets were fat, funding a staff seer to interpret these squiggles for management was a minor indulgence. "There was a perception that you keep a house economist around to vet next year's GNP forecast and write some free-market rhetoric for the CEO. I'm not sure the investment in that kind of resource is justified," comments Marina Whitman, group vice president and former chief economist of General Motors Corp. Instead, executives began demanding information relevant to management decision-making.

As companies pare their payrolls, the economists that survive have done so by becoming marketers of economic analyses within the corporation—persuading other departments that their economic insights will pay off in sales and profits. For example, some make detailed analyses of how prices and markets for the products will change in the months and years ahead. Says Joseph F. Agnich, chief economist at Bell



Atlantic Corp.: "You must provide some value-added to the company."

To produce these microeconomic analyses, companies are forcing economic consulting firms to provide them with more finely-tuned numbers. Data Resources Inc. now makes detailed forecasts of thirty different sectors. Until recently, "You'd say, 'Here's the GNP and the major aggregates' [the components of GNP] and the corporate economist would translate that down to their industry," says DRI's Chief Economist Roger Brinner. "Now, information has to be more company and industry specific."

Corporate economists are doing more modeling than ever. But these days, their models are likely to be of small sectors of the economy and serve concrete short-term business purposes. Often, the models are as simple as equations projecting sales of wood flooring in August based on the building permits issued in June.

For example, until recently the economics staff at Texas Instruments, Inc. was content with providing general economic forecasts to management; now it develops detailed outlooks for production levels in the computer and electronics industries, which are TI's major customers. Those microeconomic analyses are then used to predict the demand for the company's semiconductors, so it can plan production levels. "We are much closer to the company's end markets," says Chief Economist Vladi Catto.

Other economists have taken on operational responsibilities along with their analytical tasks. Hossein Tahmassebi, chief economist of Ashland Oil Co., chairs a committee that assesses the short-term market outlook and makes recommendations on the company's oil futures trading.

When Deutz-Allis Corp. in Milwaukee considers raising or lowering prices on its farm equipment, managers ask economist David W. Maaske to analyze how the change will affect sales of a specific line of tractors. In June, Deutz-Allis decided to ignore a

ILLUSTRATION BY RAFAL OLBINSKI

competitor's price cut after Maaske calculated the cut would not increase the competitor's market share.

The move into operations has been particularly pronounced in banks. At Boston's State Street Bank and Trust Co., Chief Economist Frederick S. Breimyer recently moved from the planning department to the capital markets division, where his forecasts affect the bank's investment policy. He has switched from making two-to-three-year macroeconomic forecasts to short-term forecasts of interest rates that traders can profit from.

This switch to operations is easy because an increasing number of corporate economists have prior experience elsewhere in their companies. Many, in fact, do not have formal training in economics (*box, page 29*). Comments F. Gerard Adams of the University of Pennsylvania's Wharton School: "Most of the PhDs coming out of economics departments are not at all suited to become business economists."

Along with redefining economists' jobs, companies are cutting back on the avalanche of economic statistics that managers receive. Joseph A. Wahed, chief economist at Wells Fargo Bank, claims many of the newsletters his colleagues publish are written mainly for other economists. "It is not an efficient use of company time for its economists to publish research reports unless they have a direct bearing on the company's bottom line," Wahed says. "It makes little sense to churn out forecasts nobody needs," concurs Georges Rocourt, economist at Baltimore's Mercantile Safe Deposit & Trust Co.

Many corporations, to be sure, continue to publish regular newsletters. For example, on Ford Motor Co. Chairman Donald Petersen's desk each week is economist John Deaver's *Monday Economic Bulletin*, with the latest economic figures and a summary of international conditions.

But, increasingly, managers want their economic information verbally, so they can ask questions tying the report to their specific needs. "The number of presentations has increased sharply," says the chief economist of a chemical company. "We've moved away from standard monthly reports toward special analysis and presentations," adds James V. Gillette, chief economist at Foremost Insurance Co. in Grand Rapids.

Managers like confronting the corporate economist. William Prebe of Dana Corp. says the company's policy committee has grown more interested in his oral presentations. "I'm being asked to respond more frequently to specific situations, foreign matters, political matters," he says.

In particular, burned by the wild gyrations of the economy in recent years, executives want economists to evaluate contingencies. "In this environment, there have been more 'what if?' questions flowing my way than we are equipped to handle," confirms Allen Sinai, chief economist of Shearson Lehman Brothers. "These days, people always ask, 'What can go wrong?' "

Alan Kellner, corporate economist for General Foods Corp., uses videocassettes and slides to communicate his economic analysis to the company's managers. The show, up to twenty minutes long, is shown every few months to managers at General Foods' locations around the world. "They prefer that to a written report," Kellner says. "Failing having me there personally, it's the next best thing."

Despite the move to microeconomics, precise numerical forecasts of the economic indicators remain the heart of most economists' work. Many confess they would prefer to eliminate them altogether, offering predictions in ranges or general outlooks.

HOW COMPANIES ARE USING ECONOMISTS

To track changes in the way businesses are using economics, DUN'S BUSINESS MONTH surveyed chief economists at 200 corporations. Here are the important findings from the 78 economists who responded:

Has the role of economists in your corporation changed over the past two years?	Yes	76%
	No	24%
For those responding yes, how has the role changed?	More focus on our company or industry	43%
	More involvement with company's operations	21%
	Influence within company increased	19%
	Role eliminated or sharply reduced	10%
	Other	7%
In what way has the nature of your forecasts changed?	More focus on pending decisions or short-term issues	32%
	More trends, fewer numbers, more use of ranges	27%
	More forecasts concerning our industry	27%
	Less frequent	9%
	More detailed	5%
Has the number of economists in your department changed in the past two years?	Increased	13%
	Decreased	36%
	Remained the same	51%
Where is the economic research function located in your company?	Strategic planning department	38%
	Finance or treasury department	33%
	Investment department	10%
	Other	18%

PPG's ATKINSON: ECONOMICS THAT MAKES MONEY

In 22 years at PPG Industries, Inc., civil engineer Douglas Atkinson has worked in production, construction and venture businesses. Perhaps that's why, as a noneconomist serving as PPG's director of corporate economic services, his primary focus is the company's products—not next year's Gross National Product. "I prefer not to think of myself as an economist, but rather as a market analyst and planner," Atkinson admits. "Eighty percent of our time is spent helping our people do market research and understand how things are changing."

Since PPG's 1985 sales of $4.2 billion were largely to the auto and construction industries, Atkinson prepares detailed forecasts of auto sales, housing starts and nonresidential construction, identifying not only the number of units to be produced, but the location, features, likely builders—in short, information PPG's sales managers need to plan ahead. Although he drafts a detailed economic forecast for PPG's annual profit plan, most of his work on macroeconomic issues deals with identifying broad trends rather than divining turning points in economic cycles. "Trying to predict whether we're going to have a recession in 1987 or 1988 or 1989 is like counting the number of angels on the head of a pin," he quips.

Atkinson: Markets, not GNP

In 1985, Atkinson drew up a long-range scenario of U.S. auto production, called "Sunset for the American Car," which cast a pall over PPG's Pittsburgh headquarters. The study noted that the size of the driving-age population is leveling off, the number of cars per thousand drivers is declining and a smaller proportion of autos is being scrapped each year. Together, these trends indicate U.S. car sales will be flat over the next decade. Equally disconcerting, Atkinson predicted that the Big Three U.S. automakers, long-time buyers of PPG's glass and coatings, will continue to lose market share as more foreign producers open U.S. plants. The report held such major consequences for PPG that only six copies were distributed. "It was too upsetting," Atkinson recalls.

The gloomy forecast galvanized some managers. Richard Zehren, general manager for Azdel, a plastic used for molded car parts, admits it led his division to increase marketing to foreign firms and to seek non-automotive uses for its product. "If you're dependent on three companies for 80% of your business, you'd better be thinking of alternatives," Zehren says.

For short-term forecasting, Atkinson prefers to watch the weekly initial jobless claims, which he labels "the best single indicator of what the economy is doing." When new claims hit 440,000 (they have ranged between 350,000 and 400,000 recently), a recession is on its way, he says. Atkinson also keeps an eye on the federal funds rate, which he considers the best predictor of whether the Federal Reserve is easing or tightening. The weekly change in the money supply "is not something I look at." Atkinson believes forecasts should not fluctuate unless there are major changes in underlying economic trends or political assumptions.

Atkinson's focus on market insights rather than raw numbers makes him popular among managers who look to him to spot developments relevant to their products. "I don't even remember the numbers," says Robert D. Duncan, vice president of PPG's chemicals group. "What's important is the perception of trends."

After eight years as an economist, Atkinson is convinced that understanding and communicating basic trends in the economy is far more important than predicting figures. "The numbers are important, but they're certainly not the end-all," he affirms. —M.L.

But managers hate range forecasts; they want a specific number. As Wharton's Adams observes, "If people provide a range forecast saying the economy will grow between 3% and 4%, then the vice president who wants to use the number says, 'I guess it's okay to use 3.5%.'"

"If economists think they're being asked to do that any more than anyone else, they're feeling sorry for themselves," adds former Ford Motor Co. Chairman Phillip Caldwell, now a partner at Shearson Lehman Brothers. "If it's going to be of any value, the judgment really needs to be honed to a point where it's within a range of usefulness to make a decision."

Such demands for useful analysis are forcing corporate economists from their ivory towers. As far as business is concerned, economics is no longer a research function; it's an analytical tool to make money. ■

PHOTOGRAPH BY LYNN JOHNSON, BLACK STAR

Avalanche Of New Drugs

After years of costly R&D, the industry is poised for a big payoff: New treatments for diabetes and heart disease.

by John C. Perham

For the third time in the post-World War II era, the U.S. drug industry is renewing itself. In the first renaissance, companies developed broad-spectrum antibiotics to fight contagious diseases. In the second historic advance, medical researchers discovered beta blockers, which stop the harmful body processes that raise blood pressure and cause heart ailments.

Today, two major developments are emerging:

☐ Drug researchers have created a whole new treatment category, inhibitors, which alter the body's chemistry to prevent ailments from starting.

☐ Biotechnology researchers have cloned drugs that were never available before in commercial quantities.

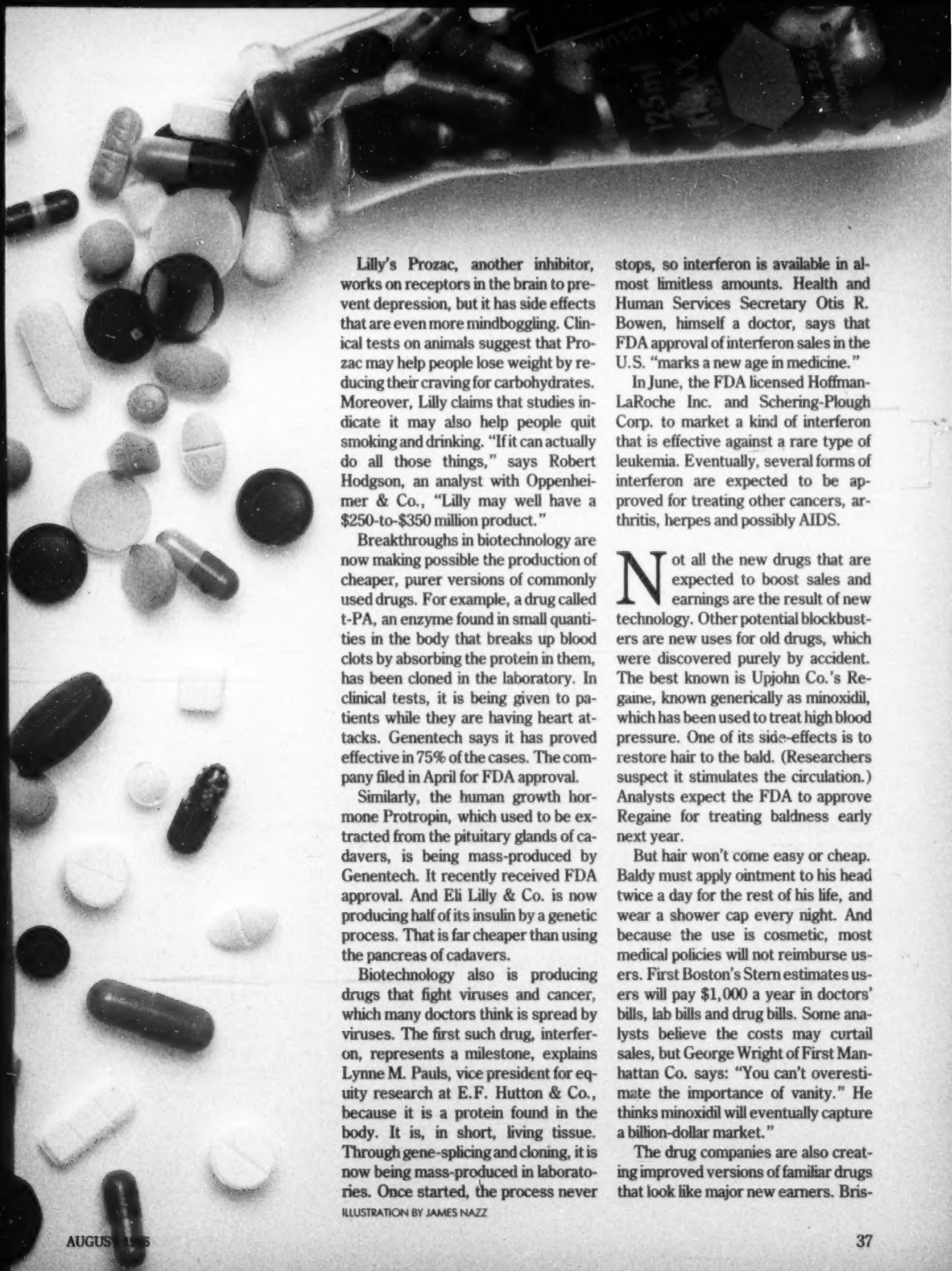
The new drugs emerging from these technological breakthroughs will be used to treat such chronic ailments as high blood pressure, heart trouble, diabetes and cancer. By 1990, Wall Street expects a dozen new blockbuster drugs to be ringing up aggregate sales of more than $5 billion a year (*see table*), succeeding earlier wonders that are now losing their patent protection.

The inhibitors represent a revolutionary strategy for fighting such common ailments as hypertension, high cholesterol levels and diabetes. For example, beta blockers have been medical science's most effective weapon for reducing blood pressure. But inhibitors are even more effective; they attack hypertension before it starts. Stress causes a harmless enzyme in the body to change into a dangerous one that contracts blood vessels and sends pressure up. Inhibitors stop that conversion from taking place. "While the beta blockers merely treat symptoms," says Ronald Stern, an analyst with First Boston Co., the inhibitors "head off the disease at the pass."

The first inhibitor to help heart conditions, Squibb Corp.'s Capoten, is expected to ring up sales of $400 million this year—a level achieved by only a handful of drugs in history. The second, Merck & Co.'s Vasotec, introduced in December, works like Capoten, but needs to be taken only once a day and is priced slightly lower. Within five years, some analysts think that Vasotec may outstrip Capoten, which must be taken twice daily. Furthermore, Neil Sweig, an analyst with Prudential-Bache Securities, predicts that Primavil, a longer-acting variation of Vasotec, also from Merck, will be next, arriving on the market in 1988.

Warner-Lambert Co.'s Lopid, another inhibitor, may prevent heart attacks by lowering cholesterol levels. A test on 4,000 men in Helsinki, Finland, for a five-year period ending in mid-1987, will help decide whether lowering cholesterol wards off heart attacks and whether Lopid can be taken safely over a long period. Merck also has an enzyme-inhibiting agent, mevinolin, which lowers cholesterol; it is being tested to see if it is safe to take for long periods.

An inhibitor of a different kind is proving effective against some of the life-threatening complications of diabetes. In April, American Home Products Corp. applied to the Food and Drug Administration for approval of an inhibitor, Alderase. It prevents sugar in the body from turning into another chemical that may cause harmful deposits in the eyes or the legs. Prudential-Bache's Steig expects that 99 out of 100 diabetics will take Alderase in addition to their present medication. Wall Street thinks the diabetes inhibitors may reach $1 billion in sales two years after the FDA gives the nod.



Lilly's Prozac, another inhibitor, works on receptors in the brain to prevent depression, but it has side effects that are even more mindboggling. Clinical tests on animals suggest that Prozac may help people lose weight by reducing their craving for carbohydrates. Moreover, Lilly claims that studies indicate it may also help people quit smoking and drinking. "If it can actually do all those things," says Robert Hodgson, an analyst with Oppenheimer & Co., "Lilly may well have a $250-to-$350 million product."

Breakthroughs in biotechnology are now making possible the production of cheaper, purer versions of commonly used drugs. For example, a drug called t-PA, an enzyme found in small quantities in the body that breaks up blood clots by absorbing the protein in them, has been cloned in the laboratory. In clinical tests, it is being given to patients while they are having heart attacks. Genentech says it has proved effective in 75% of the cases. The company filed in April for FDA approval.

Similarly, the human growth hormone Protropin, which used to be extracted from the pituitary glands of cadavers, is being mass-produced by Genentech. It recently received FDA approval. And Eli Lilly & Co. is now producing half of its insulin by a genetic process. That is far cheaper than using the pancreas of cadavers.

Biotechnology also is producing drugs that fight viruses and cancer, which many doctors think is spread by viruses. The first such drug, interferon, represents a milestone, explains Lynne M. Pauls, vice president for equity research at E.F. Hutton & Co., because it is a protein found in the body. It is, in short, living tissue. Through gene-splicing and cloning, it is now being mass-produced in laboratories. Once started, the process never stops, so interferon is available in almost limitless amounts. Health and Human Services Secretary Otis R. Bowen, himself a doctor, says that FDA approval of interferon sales in the U.S. "marks a new age in medicine."

In June, the FDA licensed Hoffman-LaRoche Inc. and Schering-Plough Corp. to market a kind of interferon that is effective against a rare type of leukemia. Eventually, several forms of interferon are expected to be approved for treating other cancers, arthritis, herpes and possibly AIDS.

Not all the new drugs that are expected to boost sales and earnings are the result of new technology. Other potential blockbusters are new uses for old drugs, which were discovered purely by accident. The best known is Upjohn Co.'s Regaine, known generically as minoxidil, which has been used to treat high blood pressure. One of its side-effects is to restore hair to the bald. (Researchers suspect it stimulates the circulation.) Analysts expect the FDA to approve Regaine for treating baldness early next year.

But hair won't come easy or cheap. Baldy must apply ointment to his head twice a day for the rest of his life, and wear a shower cap every night. And because the use is cosmetic, most medical policies will not reimburse users. First Boston's Stern estimates users will pay $1,000 a year in doctors' bills, lab bills and drug bills. Some analysts believe the costs may curtail sales, but George Wright of First Manhattan Co. says: "You can't overestimate the importance of vanity." He thinks minoxidil will eventually capture a billion-dollar market."

The drug companies are also creating improved versions of familiar drugs that look like major new earners. Bris-

ILLUSTRATION BY JAMES NAZZ

THE NEW BLOCKBUSTERS

Here is a list of tomorrow's biggest winners picked by Lynne Pauls, drug analyst of E.F. Hutton & Co. These new products, ranked in order of sales predicted for 1990, could produce $5 billion in new revenues for the industry.

Drug	Manufacturer	Purpose or Type of Drug	Est. 1986 Sales (millions)	Est. 1990 Sales (millions)
Capoten	Squibb	hypertension, congestive heart failure	$400	$750–$850
Regaine (minoxidil)	Upjohn	male pattern baldness	NA	$600–$700[1]
Vasotec	Merck	hypertension, congestive heart failure	$225	$600–$700
Lopid	Warner-Lambert	reduces cholesterol, prevents heart attacks	$50–$60	$350–$450[2]
Xanax	Upjohn	tranquilizer	$250	$400-plus
tissue plasminogen activator (t-PA)	Genentech	breaks up blood clots	NA	$400-plus[3]
Prozac	Lilly	antidepressant fights obesity	$35 NA	$75 $225[4]
mevinolin	Merck	prevents heart attacks	NA	$250-plus[5]
milrinone	Sterling Drug	congestive heart failure	NA	$250-plus[6]
Ansaid	Upjohn	arthritis, pain and periodontal disease	NA	$250[1]
Alderase	American Home Products	for diabetic complications	NA	$200–$300[1]
Primaxin	Merck	antibiotic	$80	$200
BuSpar	Bristol-Myers	tranquilizer	$30	$100–$200
interferons	Schering-Plough, Hoffman-LaRoche, et al	various cancers	$50	$150-plus

[1]If approved in 1987. [2]If proven to prevent heart attacks. [3]If approved in 1986. [4]If approved in 1987 for obesity. [5]If approved by 1982. [6]If approved in 1987 and survival rates are favorable. *Source: E.F. Hutton & Co.*

tol-Myers Co.'s BuSpar, for example, is a tranquilizer that is not addictive, does not interact badly with alcohol and does not give the user a high. It is expected to dislodge Valium, currently the industry's biggest seller, after it gets FDA approval. Already taking a growing share of the market is Upjohn's Xanax, a tranquilizer that is quicker-acting than Valium and does not have its depressive side effects.

On the bleaker side, several companies face the expiration of patents on major products. The company with the most to fear, analysts say, is SmithKline Beckman, whose ulcer drug Tagamet has annual sales of around $1 billion. But it is certain to get new competition by next year. Other drugs that have come off patent are Dyazide, a SmithKline diuretic, Inderal, an AHP beta blocker, and Hoffman-LaRoche's Valium, the tranquilizer.

Still, these are rewarding times for the drugmakers. Most analysts expect the industry to chalk up a 15% rise in profits this year, and to continue growing strongly through 1990. The drug companies' bet on R&D looks like a ticket to prosperity. ■

WANT TO OWN YOUR OWN RAILROAD?

Big railroads keep getting bigger, but they are also throwing off opportunities for entrepreneurs.

by Lynn Adkins

A year ago, Thomas A. Trantum, 41, a partner in Wall Street's L.F. Rothschild, Unterberg, Towbin, was helping put together a deal to buy 713 miles of railroad track from IC Industries in Mississippi for one of his clients. When the deal collapsed, Trantum stepped in and raised the $22 million purchase price himself. Now he lives in Columbus, Mississippi (population 27,000) and says running his newly named Gulf & Mississippi Railroad is the most exciting job he'll ever have.

Trantum is not alone. Over the last five years, entrepreneurs have started up some 100 small railroad companies (bringing the U.S. total to about 500) by buying uneconomic or redundant stretches of track from big lines. These entrepreneurs start modestly, can operate runs of ten miles or so profitably and expand easily. "The chance to build a mini-empire has returned," says Powell Felix, 37, a former schoolteacher who has been putting together his Indiana Hi-Rail Corp. since 1981.

Small railroads, popularly known as "short lines," include some regional lines as well. The Interstate Commerce Commission's guidelines define